

HP Inc. (HPQ)

\$15.01 (As of 05/28/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Despite strong demand for personal systems, HP's second-quarter results hurt by the supply-chain and manufacturing disruptions due to the coronavirus outbreak. The firm also faced logistics issues due to the lockdown in several parts of the world, causing delays in sales closures and elevated logistics costs. Further, macroeconomic weakness, particularly in Europe, the Middle East and Africa (EMEA), is denting Supplies revenues. Shares have underperformed the industry in the past year. Nonetheless, stringent cost control is driving margin expansion. Moreover, HP expects to return approximately \$16 billion to shareholders over the next three years, which is encouraging.

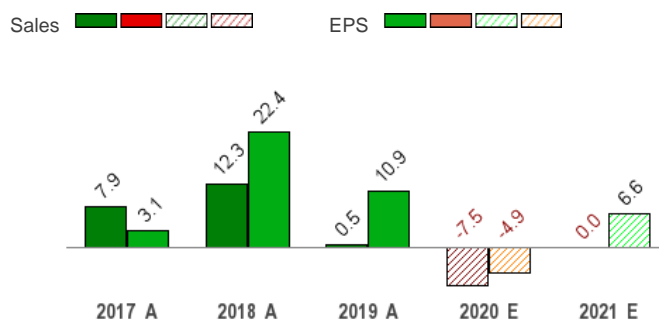
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.93 - \$12.54
20 Day Average Volume (sh)	13,284,359
Market Cap	\$21.5 B
YTD Price Change	-27.0%
Beta	1.01
Dividend / Div Yld	\$0.70 / 4.7%
Industry	Computer - Mini computers
Zacks Industry Rank	Top 17% (43 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.9%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-1.8%
Expected Report Date	08/27/2020
Earnings ESP	0.0%
P/E TTM	6.4
P/E F1	7.1
PEG F1	2.3
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	13,579 E	12,459 E	12,807 E	13,547 E	54,318 E
2020	14,618 A	12,469 A	13,319 E	14,249 E	54,345 E
2019	14,710 A	14,036 A	14,603 A	15,407 A	58,756 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$0.51 E	\$0.50 E	\$0.58 E	\$2.27 E
2020	\$0.65 A	\$0.51 A	\$0.43 E	\$0.52 E	\$2.13 E
2019	\$0.52 A	\$0.53 A	\$0.58 A	\$0.60 A	\$2.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/28/2020. The reports text is as of 05/29/2020.

Overview

HP Inc. is the surviving entity following the November 2015 split of Hewlett-Packard Company into publicly traded entities - Hewlett Packard Enterprise Company and HP Inc.

The company is a leading global provider of personal computing and other access devices, imaging and printing products, and related technologies, solutions and services to individual consumers, SMBs and large enterprises, including customers in the government, health and education sectors.

Headquartered in Palo Alto, CA, HP Inc. was founded in 1939. In Europe, Middle East, Africa (EMEA), the company is headquartered in Geneva, Switzerland. In Asia Pacific, the company's headquarter is in Singapore.

HP reported net revenue of \$58.8 billion in fiscal 2019. HP has three reportable segments: Personal Systems, Printing and Corporate Investments.

The Personal Systems segment (65.8% of FY19 Revenues) offers Commercial and Consumer desktop and notebook personal computers (PCs), Workstations, thin clients, Commercial mobility devices, retail point-of-sale (POS) systems, displays and other related accessories, software, support and services.

The Printing segment (34.2%) provides Consumer and Commercial printer hardware, Supplies, solutions and services, as well as scanning devices. Corporate Investments includes HP Labs and certain business incubation projects.

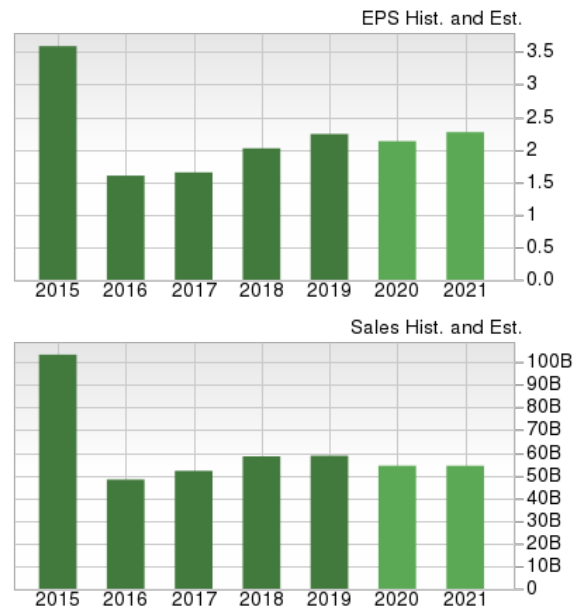
The Personal Systems Group competes with Lenovo, Dell, Acer, Apple, Toshiba and Samsung Electronics while the Printing segment shares space with the likes of Canon, Lexmark International, Xerox, Seiko Epson, The Ricoh Company and Brother Industries.

The company recognized 35.1% of its fiscal 2019 revenues from the United States while "Other countries" contributed to the rest of the revenues.

In the past three fiscal years, notebook PCs, printing supplies and the desktop PCs, each accounted for more than 10% of the company's consolidated net revenue stream.

As of Oct 31, 2019, the company's worldwide patent portfolio included more than 27,000 patents comprising the ones acquired from Samsung.

The company had approximately 56,000 employees worldwide as of Oct 31, 2019.



Reasons To Buy:

- ▲ Product innovation and differentiations are the key drivers that have helped HP in maintaining its leading position in PC market. The company is also one of the largest sellers of printers. HP has been launching several new innovative models in the PC segment as well as in the Printing segment. We believe that the continuous product launches will help HP stay afloat in the current uncertain macroeconomic environment.
- ▲ The acquisition of Samsung Electronics' printer business (S-Print) is believed to be a strategic move by HP to turn around the printer business. The S-Print business has more than 6,500 printing patents, which will help HP expand in the domain. All these will support development and manufacturing of HP printers, going forward. Moreover, it will help HP gain market share from its Japanese rivals – Canon Inc. and Espon, and control prices. Apart from this, the acquisition will also give HP access to Samsung's partners and strengthen HP's position across various geographies.
- ▲ To give a further boost to its Printing business, HP is increasing investments on its A3 multifunction printers (MFPs). These printers are designed to disrupt the traditional \$55 billion A3 copier category. HP's highly scalable and cost-optimized printers will meet the increasing demand of customers' printing needs. We believe that the successful deployment of the new A3 MFPs printers will boost revenue growth for the company, going forward. Additionally, HP expects its acquisition of Europe's largest independent provider of print and document services, Apogee Corporation, to drive growth in contractual office print market. Management believes that A3 is on track to achieve 12% market share by 2020.
- ▲ Apart from fortifying its traditional printing product portfolio, HP is focusing on enhancing its 3D printing business capabilities. Notably, the 3D printing market presents significant long-term investment opportunities as a large number of engineers, designers, architects and entrepreneurs are now turning to 3D solutions for primary designing and product modeling. Thus, in order to establish its base in this space, HP unveiled its Jet Fusion 3D printing solution last year. The company believes that its expanded product portfolio, materials and industrial partnerships will help it cater to the needs of a growing range of customers with a diverse range of manufacturing needs. We believe, growth in the 3D printing portfolio will help it establish a stronger footprint in this intensely competitive market, dominated by well-established players, namely Stratasys, 3D Systems and Voxeljet.

Product innovation and differentiations are the key drivers that are helping HP maintain its leading position in the PC market.

Reasons To Sell:

- ▼ The near-term prospects for HP's PC division look gloomy due to the coronavirus outbreak. According to the latest data compiled by IDC, global PC shipments fell drastically year-over-year in the first quarter despite a demand surge due to the shift toward the work-and-learn from home trend amid coronavirus-led global lockdown. Lockdown measures to contain the spread of coronavirus in China, the world's largest supplier of PCs, have significantly delayed productions as well as created logistic and labor issues, resulting in a global PC shipment decline.
- ▼ Rising macro uncertainties and the price sensitivity among customers are undermining the company's high-margin Printing business. Change in customer purchasing behavior with more commercial customers buying items online, is negatively impacting HP's Supplies share. Management had earlier stated that the company has a lower market share in that space as compared to its share of traditional commercial resellers and in-store retailers. Further, given the high inventory and pricing issues, the company expects sales for the Printing segment to be weighed on.
- ▼ The company faces stiff competition for its PC and printer businesses. The PC segment competes with Lenovo, Dell, Acer, Apple, Toshiba Corporation and Samsung Electronics, while in the printing segment compete with the likes of Xerox Corporation and Seiko Epson Corporation. Moreover, even though HP has been operating in 3D printing for almost five years now, the company lags behind 3D Systems Corporation and Stratasys.
- ▼ Around 65% of the company's revenues come from businesses outside the United States. Thus, an economic condition which impacts the foreign currency exchange rates does result in transaction exposure, which leads to profit fluctuation.
- ▼ HP is an above-average leveraged company as its current total debt to total capital ratio of 1.71 is significantly higher than the industry average of 0.55. The company's outstanding debt (including current maturities) increased to \$5.5 billion as of Apr 30, 2020 from \$4.9 billion as of Jan 31, 2020. Furthermore, its cash and equivalent balance of \$4.1 billion is lower than the outstanding debt.

Global trade environment, change in customer purchasing behavior and the industry component availability persistently pose key challenges to HP.

Last Earnings Report

HP Second-Quarter Fiscal 2021 Results

HP reported year-over-year declines in second-quarter fiscal 2020 earnings and revenues. Supply-chain and manufacturing disruptions due to the coronavirus outbreak mainly hurt the PC maker's results.

The company noted that its manufacturing operations were disrupted in the beginning of the fiscal second quarter due to factory closures in China. Later in the quarter, it witnessed manufacturing disruptions in Southeast Asia as well. The firm also faced logistics issues due to the lockdown in several parts of the world, causing delays in sales closures and elevated logistics costs.

HP delivered fiscal second-quarter non-GAAP earnings from continuing operations of 51 cents per share, down from the year-ago quarter's earnings of 52 cents. However, quarterly earnings surpassed the Zacks Consensus Estimate by 15.9%.

HP's net revenues of \$12.47 billion missed the Zacks Consensus Estimate of \$12.88 billion and declined 11% year over year. In constant currency (cc), revenues were down 10%.

Quarter in Detail

Personal Systems revenues (66% of net revenues) were \$8.3 billion, down 7% year over year (6% in CC). Further, commercial as well as consumer revenues, each decreased 7%.

HP's total units sold slipped 5% from the year-ago quarter. Notebooks registered a 5% climb, while desktop units dropped 23%, year on year. While notebook revenues remained flat, desktop revenues were down 18%, year over year.

Printing business revenues (34% of net revenues) were down 19% year over year (down 18% in CC) to \$4.2 billion. HP's total hardware units sold dipped 23%.

Commercial Hardware revenues plunged 31%, year on year. Further, revenues from Consumer Hardware and Supplies decreased 16% and 15%, respectively.

Region wise, at cc, revenues from Asia-Pacific (21%) decreased 16%. Meanwhile, Europe, the Middle East and Africa (EMEA) revenues (37%) were 7% down. Revenues from Americas (42% of net revenues) declined 10%.

Operating Results

Segment wise, Personal Systems operating margin expanded 230 basis points (bps) to 6.6% on cost control. However, printing operating margin shrunk 320 bps to 13.2% on lower supplies revenues.

Meanwhile, non-GAAP operating margin from continuing operations of 8.7% advanced 20 bps, year over year.

Balance Sheet and Cash Flow

HP ended the fiscal second quarter with cash and cash equivalents of \$4.05 billion compared with the \$4.21 billion recorded in the prior quarter.

During the reported quarter, the company uses operating cash flows of \$510 million and approximately \$600 million in free cash flow. In the previous quarter, the firm had generated operating and free cash flows of \$1.3 billion and \$1.1 billion, respectively.

HP returned nearly \$375 million to its shareholders in the form of stock repurchases (\$123 million) and cash dividends (\$252 million).

Guidance

HP expects the coronavirus crisis to adversely impact its top and bottom lines, and free cash flow in the fiscal third quarter.

For the fiscal third quarter, HP estimates non-GAAP earnings between 39 cents and 45 cents.

HP anticipates solid demand for personal systems during the fiscal third quarter driven by working-and-learning-from-home wave. Nevertheless, supply constraints are a major issue, and the company projects elevated components and logistics costs during the quarter.

Further, citing uncertainties related to the duration of the pandemic and the timing and pace of economic recovery, the company withdrew the fiscal 2020 earnings guidance. It had earlier projected earnings between \$2.33 and \$2.43 per share for the fiscal year.

HP expects to return approximately \$16 billion to shareholders over the next three years. During the fiscal second-quarter earnings conference call, HP stated that it would return more than 100% of its fiscal 2020 free cash flow to shareholders in the form of share buybacks and dividend payments.

Quarter Ending **04/2020**

Report Date	May 27, 2020
Sales Surprise	-1.84%
EPS Surprise	15.91%
Quarterly EPS	0.51
Annual EPS (TTM)	2.34

Recent News

On May 28, 2020, HP, in collaboration with Microsoft and Valve, unveiled its latest virtual reality (VR) headset, the HP Reverb G2.

On May 15, 2020, HP's board of directors declared quarterly cash dividend of \$0.1762 per share to be payable on July 1 to the shareholders of record date as of Jun 10.

On Apr 14, 2020, HP launched Print, Play & Learn, a free online resource to support millions of families around the world who have transitioned to learning from home.

On Mar 24, HP announced that it is building 3D printed hands-free door openers, mask adjusters and face shields, and has already supplied more than 1,000 of these to hospitals. The products are being manufactured at its 3D research and development centers in San Diego; Corvallis, OR; Vancouver, WA; and Barcelona.

On Mar 11, HP launched several digital printers and printing solutions to accelerate its transition from analog to digital printing. The portfolio of HP Indigo digital labels and packaging has been created especially to be demonstrated in the drupa 2020, which is scheduled to be held from Jun 16-26.

Valuation

HP shares lost 27% in the year-to-date (YTD) period and 21.6% over the trailing 12-month period. Stocks in the Zacks sub-industry have increased 8.4% while the Zacks Computer & Technology sector grew 3.3%, year-to-date (YTD). Over the past year, the Zacks sub-industry and the sector have gained 74.8% and 20.9%, respectively.

The S&P 500 Index has declined 5.7% YTD while has gained 8.7% in the past year.

The stock is currently trading at 6.61X forward 12-month earnings, compared with 21.88X for the Zacks sub-industry, 24.16X for the Zacks sector and 22.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.1X and as low as 3.82X with a 5-year median of 9.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16 price target reflects 6.94X forward 12-month earnings.

The table below shows summary valuation data for HP

Valuation Multiples - HPQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.61	21.88	24.16	22.02
	5-Year High	13.10	21.88	24.16	22.02
	5-Year Low	3.82	10.12	16.72	15.23
	5-Year Median	9.32	14.48	19.24	17.49
EV/Sales TTM	Current	0.37	3.98	4.15	2.96
	5-Year High	4.10	4.14	4.43	3.46
	5-Year Low	0.25	1.77	2.59	2.14
	5-Year Median	0.56	2.81	3.58	2.82
EV/EBITDA TTM	Current	4.20	14.75	11.81	11.21
	5-Year High	16.98	15.10	12.72	12.86
	5-Year Low	1.45	5.37	7.57	8.26
	5-Year Median	7.39	9.80	10.72	10.80

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	2
3D Systems Corporation (DDD)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
Lenovo Group Ltd. (LNVGY)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	2
Sony Corporation (SNE)	Neutral	3
Stratasys, Ltd. (SSYS)	Neutral	4
Xerox Corporation (XRX)	Neutral	4

Industry Comparison Industry: Computer - Mini Computers				Industry Peers		
	HPQ	X Industry	S&P 500	AAPL	DDD	LNVGY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	B	C	A
Market Cap	21.46 B	13.98 B	21.49 B	1,379.40 B	897.45 M	6.51 B
# of Analysts	5	4	14	12	5	2
Dividend Yield	4.70%	1.82%	1.98%	1.03%	0.00%	2.60%
Value Score	A	-	-	B	F	A
Cash/Price	0.17	0.15	0.06	0.07	0.13	0.58
EV/EBITDA	4.59	3.82	12.50	17.56	-123.63	3.05
PEG Ratio	2.30	2.11	2.87	2.43	NA	0.60
Price/Book (P/B)	NA	1.84	2.95	17.59	1.84	1.51
Price/Cash Flow (P/CF)	5.36	13.11	11.81	20.86	146.21	4.66
P/E (F1)	7.03	7.55	21.33	25.91	NA	7.55
Price/Sales (P/S)	0.38	0.93	2.28	5.15	1.47	0.13
Earnings Yield	14.19%	8.53%	4.50%	3.86%	-1.85%	13.20%
Debt/Equity	-5.30	0.30	0.76	1.14	0.09	0.50
Cash Flow (\$/share)	2.80	2.56	6.96	15.26	0.05	2.32
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	-8.88%	-0.15%	10.87%	9.79%	NA	-0.15%
Proj. EPS Growth (F1/F0)	-4.91%	12.78%	-10.48%	3.32%	-77.50%	31.65%
Curr. Cash Flow Growth	8.32%	2.29%	5.39%	-3.74%	-64.21%	46.98%
Hist. Cash Flow Growth (3-5 yrs)	-18.40%	-5.50%	8.55%	7.40%	-43.37%	11.30%
Current Ratio	0.78	1.18	1.29	1.50	2.21	0.85
Debt/Capital	NA%	33.39%	44.54%	53.18%	8.37%	33.39%
Net Margin	5.27%	3.29%	10.59%	21.35%	-10.53%	1.31%
Return on Equity	-295.77%	3.56%	16.26%	64.49%	-8.77%	15.88%
Sales/Assets	1.74	1.16	0.55	0.81	0.74	1.51
Proj. Sales Growth (F1/F0)	-7.51%	-4.00%	-2.53%	0.74%	-12.83%	-0.49%
Momentum Score	B	-	-	C	B	C
Daily Price Chg	-12.33%	-2.23%	-0.65%	0.04%	-3.82%	-0.64%
1 Week Price Chg	14.40%	4.31%	4.99%	3.63%	4.99%	-4.48%
4 Week Price Chg	-3.22%	-1.43%	4.28%	8.32%	-11.07%	0.37%
12 Week Price Chg	-30.32%	-16.08%	-3.05%	8.65%	-16.11%	-16.05%
52 Week Price Chg	-21.58%	-14.75%	0.01%	78.49%	-7.93%	-24.53%
20 Day Average Volume	13,284,359	7,912,919	2,425,602	33,163,030	2,541,479	38,135
(F1) EPS Est 1 week change	-1.84%	-0.08%	0.00%	-0.17%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.84%	1.83%	-1.70%	2.97%	12.61%	0.70%
(F1) EPS Est 12 week change	-11.44%	-10.71%	-16.00%	-9.98%	-53.97%	-6.21%
(Q1) EPS Est Mthly Chg	-0.77%	-0.77%	-3.25%	0.76%	-16.13%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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